

Financial Affairs  
Richard H. Hinds, Chief Financial Officer

**SUBJECT: REPORT ON POTENTIAL SWAPS AND SWAP PROVIDERS BY  
INVESTMENT ADVISORY COMMITTEE AND DEFERRAL OF  
ANY SWAP TRANSACTION UNTIL FURTHER NOTICE AND  
FUTURE BOARD ACTION**

At its meeting of February 13, 2002 the School Board approved a Request for Proposal to evaluate available transactions proposed by swap providers in the swap markets and to explore the possibility that the District could enter into a swap to obtain future longer-term advantages on debt service payments.

The Investment Advisory Committee (IAC) was appointed by the Board to evaluate options and submit a report and recommendation to the Board. Dr. Michael Krop, Vice-Chair, represented the Board during the evaluation. The IAC met, together with the Board's financial advisor and District staff, on April 24, 2002 to discuss the proposed swaps.

In general, swaps consist of an exchange of fixed or floating rate debt for the opposite. One of various indices is selected and used to determine the floating rate. Depending on the District accepting or rejecting tax risks, different available hedges or strategies such as "collars" which set a floor and ceiling for payments by the counterparty or the District can be incorporated in the transaction. A cap limiting the interest to be paid by the District can be purchased; however, it greatly reduces the monetary benefits.

The committee reviewed various swap options recommended by responding swap providers and recommends that no action be taken at this time for the following reason:

Because of the current low floating rate environment which the District would benefit from in issuing new Certificates of Participation, this strategy is currently more advantageous than entering into a swap. Any swap would also reduce the amount of capacity for variable rate debt in the near future, which is set by rating agency analysts, impairing the availability of issuing additional new floating rate Certificates of Participation.

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The committee agrees that swaps are a strategy that may be considered in the future for reducing and managing debt service payments and are to be monitored to ascertain particular conditions in which may prove beneficial to the District in the future. Because of the inherent risk embedded in all swaps the transaction does not appear to benefit the District currently.

One available transaction that can produce a substantial amount for capital projects is the selling of an "in the money swaption" which would take place in early 2003 and relates to the Series 1993, General Obligation Bonds becoming callable on August 1, 2003 and the COP callable on July 15, 2003. This possible transaction will be referred to the Board for review and consideration early in 2003.

**RECOMMENDED:** That The School Board of Miami-Dade County, Florida receive the report of the Investment Advisory Committee regarding swap options and swap providers and defer entering into any swap transaction until further notice.

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